The Relationship Between Corporate Social Responsibility and Financial Performance: Evidence from Malaysia

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Abstract: Corporate Social Responsibility (CSR) has been an important topic in accounting research. Despite extensive studies on CSR activities in Malaysia, studies that investigated the nature of CSR activities in relation to firm financial performance is still limited. Thus, this research investigates the relationship between CSR activities and firm financial performance of Malaysian public listed companies. This study relied on secondary data obtained through content analysis of published company’s annual reports for the year 2009-2013. Based on purposive sampling method, this study covered the assessment of the top one hundred companies in Malaysia whose names and shares were quoted in Malaysia stock exchange (Bursa Malaysia). Based on literature, four independent variables (environment, community, workplace and marketplace) and two dependent variables (Earning Per Share (EPS) and Return on Equity (ROE)) have been chosen in this study. Data were analyzed and interpreted using SPSS specifically Pearson’s correlation to analyses the relationship between CSR activities and firm financial performance. This study discovered that most of the relationship between four CSR activities (environmental, community, marketplace and workplace) with financial performance (ROA and ROE) were positive. It can be concluded that Malaysian top 100 companies that actively involved in the four CSR activities are able to enhance their financial performance. It is imply that sound financial management can effectively be achieved through appropriate CSR practice that leads to considerable economic development. Companies’ performance would improve by adopting this appropriate recommendation for enhancing good CSR practice.

Key words: Corporate social responsibility, financial performance, Malaysian listed companies, appropriate, assessment

INTRODUCTION

Corporate Social Responsibility (CSR) has turn to be part of business strategy for corporate development, sustenance and survival since its inception in the early 1930s and considered as significant tool in explaining corporate relationships and business management in order to achieve business goals. CSR can be described as a mean for establishing an effective framework for strategic management and business relationship among various stakeholders. Generally, CSR is appearing as a hopeful driver for development in emerging countries. CSR practice in Internationally Operating Corporations (IOCs) were anticipated to absolutely gear off to the elimination of contemporary issues such as poverty, hunger and disease while improving education, values, equality and economic success in sustainable manner (Matten and Moon, 2008). In fact, many industrialized countries have implemented laws requiring listed or non-listed firms to publish reports detailing with their exposure to environmental, social and governance risks and how they address these risks.

In Malaysia, CSR has attracted substantial attentions since 2006 when the Prime Minister of Malaysia announced all Public Listed Companies (PLCs) need to reveal the evidences of their CSR. The requirement is supported by Bursa Malaysia’s listing requirement. Since, then CSR in Malaysia become mandatory and the Bursa Malaysia (BM) has also set out the framework for listed companies in Malaysia to take CSR more seriously. The framework is aiming to regulate companies in identifying their CSR activities covering four important areas such as environment, workplace, community and marketplace. Until today CSR has become a popular topic of studies (Alrazi et al., 2009; Nejati and Amran, 2009; Muwazir and Hadi, 2013). Despite the extensive studies on CSR in Malaysia most of the studies concentrated on the effectiveness of CSR disclosure, perception of CSR,

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development of CSR reporting and comparison between Malaysia and other countries. To date there is no such research conducted based on the current nature of CSR activities as well as the relationship between corporate social responsibility and firm financial performance. Hence, this study is to investigate the CSR activities of the top 100 companies in Malaysia and their relationship to company’s financial performance.

**Literature review**

**What is Corporate Social Responsibility (CSR)?** CSR has an elusive concept and being define in various ways which are related clearly too differing views regarding the role of business in society (Clarkson, 1995; Lantos, 2002). According to Dusuki (2005), CSR require the needs to convey various thought from different sort of people. Thus, has leading to various definitions of CSR that agreed by different group of people specifically based on their own perception and without a single consensus agreement (Shahin and Zairi, 2007). Generally, CSR is understood to be the way firms integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner and thereby establish better practices within the firm, create wealth and improve society (Jamali, 2006). It positions companies to both proactively manage risks and take advantage of opportunities, especially with respect to their corporate reputation and broad engagement of stakeholders. Dahlsrud (2008) defined CSR as a management concept whereby companies integrate social and environmental concerns into their business operations and interactions with their stakeholders. It’s also about performance moving beyond words on a page to effective and observable actions and societal impacts.

CSR is also defined as a strategic plan of a company that changes business operations to develop, sustain or alleviate bad company’s impact on society and the environment (Baranjee, 2008). It is involved a set of actions of a company that changes business operations to improve, maintain or mitigate a company’s impact on society and the environment (Porter and Kramer, 2006). Performance reporting is all part of transparent, accountable and hence credible corporate behavior.

CSR can be summarized as the way through which companies achieves balance of economic, environmental and social imperatives, i.e., triple-bottom-line approach, simultaneously addressing the prospects of both shareholders and stakeholders of the organization. It can also be described as a programme of actions to reduce externalized costs or to avoid distributional conflicts. It’s all about how companies effectively manage business processes to produce an overall positive impact on society that respects cultural differences and finds business opportunities in building skills of employees and the community. It is business giving back to society.

**How to measure CSR?** Many variables/components serve as measurements of CSR established around the world. This study used four most influential components of CSR which includes environmental, community, workplace and marketplace. These four components are also the most essential elements in measuring CSR activities among public listed companies in Malaysia.

**Environment:** It often refers to the overall condition of the earth or the healthy condition of people living in the environment is (Evans and Kantrowitz, 2002). Corporations pursue environmental initiatives that are viewed as an option to induce economic stimulus while achieving solid CSR goals. In fact some of the leading corporations that achieved CSR with environmental initiatives motivate competitive landscape of the marketplace to improve operational efficiency, rethink product designs and seek out new and innovative technology. Generally, environmental CSR initiatives can affect the following levels of corporate structure, e.g., environmental disclosure, environmental policy, environmental impact and environmental performance (Clarkson, 1995). With CSR policy, the management’s mandates will emphasis on internal efforts to incorporate corporate wide policies and agendas that direct corporation toward environmental goals.

Kaplan and Norton affirms that companies’ struggle to improve environmental performance must perhaps for the determination of reaching regulatory framework, market demand and search for competitive advantages. Environmental management has always been associated with repetitive matters such as reduction of pollution, biodiversity, waste management and noise and energy consumption. They further added that corporations today tend to focus on practices that able to reduce the impact of pollution and waste that could badly destroy environment. Moreover, environmental activities signified company’s efforts to protect and preserve natural resources and environment. This include initiatives such as renewable energy, reduce air and water pollution, hazardous chemicals, effluents and waste generation, monitor energy usage, monitor and reduce greenhouse gas and other emissions and maintain biodiversity. In addition, Kantabutra and Avery (2013) stressed that environmental sustainability practice includes plantation, oil and gas mining, biodiversity and energy efficiency control.
Community: A community in this aspect is a place where business operation is conducting or carrying out and a key stakeholder to business is the community within which the company operates (Porter and Kramer, 2006). Generally, community activities include charitable donations or sponsorships in which company promotes economic development, e.g., efforts made to improve: local infrastructure, community engagement and development, social welfare, security, community healthcare and education (Rotolo and Wilson, 2006). Incorporating community activities would be either direct or indirect, however, financing and other care for community schemes implement by local agencies, relates to the interface between business and society that can be impacted by a project, product or investment on a local or global level. Corporations live within community thus they should develop a kind of interdependent relationship as they influence by the community in various means also the community depends on them as well.

Marketplace: Generally, market place initiatives should focus more on company’s customer service targets and how to manage suppliers and service providers. Some companies have implemented voluntarily suppliers score card that encourages suppliers and service providers to disclose how they measure effort to reduce greenhouse, grasses, water and energy and whether, especially in less developed countries (Kantarputra and Avery, 2013). Hence, companies are expected to develop green products, engage stakeholders, engage in ethical procurement, manage their supply chains, develop vendors and social branding and pay attention to corporate governance. It also shows how companies and businesses integrate responsible business conduct into practice and operation (Faisal, 2010). Customers are becoming increasingly demanding as price and quality become more equal, they are looking towards brand values which match their own and companies whose activities they can respect.

Workplace: Workplace activities refers to a variety of issues which employees and employers face while at work, this include labor relations, personal and professional conflict issues, health and safety, discrimination and harassment (Fox and Stallworth, 2009). Stallworth and dan Kleiner (1996) affirm that well design workplaces enhance dissemination of information and networking regardless to job boundaries by allowing free communication among departmental area. Sustainable workplace is one which ensures positive impacts on employees and their families, whilst ensuring a working environment which motivates and enables employees to make their best contribution to business success and impact positively on all stakeholders. The simple fact is that if employees are really company’s greatest asset then there is need to invest heavily on employee so as to explore the best positive returns.

The relationship between CSR and Company Financial Performance (CFP): The relationship between CSR and CFP has been empirically examined by many studies. In early study, Griffin and Mahon summarized the findings of various articles and concluded that no conclusive consensus exists on the empirical on CSR and CFP. In another studies using a meta-analysis done by Vogel (2005) and Allouche and Laroche (2005) in the United Kingdom (UK) show that CSR has a positive impact on CFP. Likewise, McWilliams et al. (2006) used an average of 524 annual reports of the large United States (US) corporations for the period of 1991-1996. Regression model was adopted as measure of CFP (dependent variable) while social performance, industry and expenditure for research and development was adopt as CSR measures (independent variables). The findings suggest that inclusion of research and development variables in the model caused CSR variable to be insignificant, leading them to the conclusion that there is no relationship between CSR and firm financial performance if the regression model is properly specified.

Lamsa et al. (2008) measured two hundred and seventeen business students in Finland to determine their attitudes towards various CSR notions and stakeholder model against shareholder model. The outcomes signified that respondents value stakeholder model of the company more than shareholder model. Research by Arli and Lasmono (2010) which study the perception of patrons in Indonesia toward CSR activities show that consumers in Indonesia are uninformed and not supported towards CSR. This is contrary discovery of consumer perceptions in developing countries where most clients were eager to backed products and services by socially responsible businesses. It also shows that the concept of CSR in developing countries needs more enforcement and awareness by the regulatory bodies. Similarly, Duarte (2010) carried out an investigative study to discover the thoughtfulness of five CSR managers with respect to their impact of personal values on their work in Brazilian companies. The outcomes vividly specified that personal attributes of managers play a significant role in improvement and maintenance of CSR values. Rahman et al. (2011) employ sentences as measurement tool to assess the level of CSR disclosure practices of 30 GLCs listed on Malaysian Stock Exchange from 2000-2004. CFP were measured by Return on Assets (ROA) and
Fig. 1: Research model of the study

Return on Equity (ROE). The study revealed that the level of CSR disclosure among GLCs is high as the trend of disclosure among social information is increasing from 1 year to another throughout the period of the study. However, the statistical result indicates that not all the CSR activities were found to be correlated with CFP. Only environment theme has a positively weak correlation with the ROA. It can be concluded that although, the positive relation between CSR and CFP has prevailed in many studies but still the results remain inconclusive. Such, inconclusiveness creates ground for further research. The trend in developed markets show there has been widespread empirical study on the relationship between CSR and CFP.

**Research model:** Based on the literature review, the research model of the study has been developed as in Fig. 1. Four independent variables (environmental, community, marketplace and workplace) as CSR index. This simply because the four independent variables are the most accepted and recognized CSR measures worldwide (Kinderman, 2012). While Earning per Share (EPS) and Return on Equity (ROE) served as dependent variables to measure firm financial performance. Based on the model the general hypothesis of the study is:

There is a relationship between CSR activities (environment, community, marketplace and workplace) and financial performance of public listed companies in Malaysia

**MATERIALS AND METHODS**

This study adopted quantitative research design because it is considered as the most appropriate research design to be used especially based on the nature of the research hypothesis and the data are required. Moreover, the research is more of exploratory as to interpret data by observing and analyzing the annual reports of top 100 companies in Malaysia from different sector, e.g., mining, properties, plantation, trading and service, finance, construction, manufacturing, etc. The data were obtained from content analysis of company’s annual reports and account for the year ended for 5 years (2009-2013). The data were downloaded from Bursa Malaysia website processed and analyzed using Statistical Package for Social Science (SPSS 2.0) and Microsoft (Excel 2007).

**RESULTS AND DISCUSSION**

The results of overall correlation matrix between the four independent variables of the CSR activities (environmental, community, marketplace and workplace) and the two dependent variables (firm performance-EPS and ROE) of this study is shown in Table 1.

**Environmental activities vs. CFP:** The results shows that the correlation between CSR activities and CFP are mixed result. For example at significant level 0.05, environmental activities found to have positive correlation in 2009, 2010 and 2011 while the correlation is weak in 2012 and 2013 for EPS where r is = 0.067 and 0.093 n = 100 with p = 0.021<0.05 in 2010 and 0.316, 0.268, 0.507 and 0.355, p>0.05 in 2009, 2011, 2012 and 2013 with high levels of environmental activities associated with high levels of EPS. For ROE, there is positive correlation between the two variables in 2009 and 2011 where r = 0.165 and 0.71, respectively and weak correlation in 2010, 2012 and 2013 where r = 0.090, 0.063 and 0.039, n = 100 with p = 102, 0.375, 0.483, 0.535 and 0.535>0.05 for the year 2009, 2010, 2011, 2012 and 2013, respectively. Based on the
correlation co-efficient it can be concluded that environmental activities correlate positively with firm financial performance.

The result of the environmental activities support stakeholders theory which says for every business to be successful it has to create value to its customers, suppliers, employees, community and financiers and on the other hand, contradict shareholder’s theoretical perception that says environmental activities does not have any influence on firm financial performance. Moreover, the findings support the research by Kantabutra and Avery (2013) who also found positive association between environmental sustainability and firm financial performance. It makes known that environmental activities do influence firm financial performance which validates the theoretical prediction of stakeholders’ theory on the positive relationship between environmental practice and firm financial performance.

Community activities vs. CFP: For community activities positive correlation was found in 2009, 2010 and 2011 for EPS where $r = 0.243^*, 0.211^*$ and 0.174 while the correlation is weak in 2012 and 2013 for EPS where $r = 0.010$ and 0.034, $n = 100$ with $p = 0.015$ and 0.035<$0.05 in 2009 and 2010 and 0.084, 0.924 and 0.737$<$0.05 in 2011, 2012 and 2013 with high levels of community activities associated with high levels of EPS. For ROE, there is positive correlation between the two variables in 2009, 2010 where $r = 0.202^*$ and 0.140 and weak correlation in 2011 and 2013 where $r = 0.096$ and 0.053, respectively, there is weak negative correlation in 2012 where $r = -0.010$ $n = 100$ with $p = 0.044, <0.05$ in 2009 and 0.164, 0.342, 0.923 and 0.602 $p<0.05$ for the year 2010, 2011, 2012 and 2013, respectively. Therefore, it can be concluded that companies that participate in community activities can gain higher income in return.

The finding is similar to Rotolo and Wilson (2006) and Porter and Kramer (2006) who stated that business that want to be sustainable should actively engage in community activities so as to develop mutual understanding and enhance sustainability growth. Similar to the study by Roseland, it can be concluded that to respond to growing community activities can impose considerable costs on companies this is due to the competitive environment in relation to customers, resources and labor market which is changing in ways that favor those companies with good community relationships.

Marketplace activities vs. CFP: Correlation matrix of marketplace activities and CFP also found to be positive in 2010, 2011, 2012 and 2013 for EPS where $r = 0.126, 0.110, 0.196$ and 0.187, respectively. The correlation is weak in 2009 for EPS where $r = 0.072, n = 100$ with $p = 0.051<0.05$ in 2012 and 0.476, 0.212, 0.277 and 0.068 $p>0.05$ in 2009, 2010, 2011 and 2013 with high levels of marketplace activities associated with high levels of EPS. For ROE, there is weak negative correlation between the two variables in 2009, 2010, 2012 and 2013 where $r = -0.025, -0.043, -0.063$ and 0.002, there is weak positive correlation in 2011 where $r = 0.012$ with $p = 0.806, 0.660, 0.506, 0.533$ and 0.986 for the year 2009, 2010, 2011, 2012 and 2013. It is concluded that effective practice of marketplace activities do enhance firm financial performance.

The finding is supported the empirical study of Allouche and Laroche (2005) which also found firm financial performance is positively associated with suitably matching supply chain strategies with that of product variety strategy. Companies that match supply chain structure with product variety perform better with that fail to match such preference. A marketplace activity is one of the four essential elements of CSR framework in Malaysia; set out to pursue economic growth and ensure business sustainability in Malaysia in the years ahead. Kim et al. (2003) added that marketplace improve firm financial performance through enhancing brand loyalty, perceived quality and brand image when establishing an explicit brand equity to customers, these three variables in marketplace affect financial performances of a company.
Workplace activities vs. CFP: Finally, for workplace activities, there is positive correlation between the two variables in 2009, 2010, 2011, 2012 and 2013 for EPS where $r = 0.290^{**}, 0.364^{**}, 0.214^{*}, 0.177$ and $0.155, n = 100$ with $p = 0.003, 0.000$ and $0.032, p < 0.05$ in 2009, 2010 and 2011 and $p = 0.79$ and 0.123. The p<0.05 in 2012 and 2013 with high levels of workplace activities associated with high levels of EPS. For ROE, there is positive correlation between the two variables in 2009, 2010 and 2012 where $r = 0.172, 0.211^{*}$ and 0.104 the correlation is weak in 2011 where $r = 0.039$ and having large negative correlation in 2013 where $r = -0.113$ with $p = 0.035 p < 0.05$ in 2010 and 0.087, 0.699, 0.303 and 0.262 $p > 0.05$ in 2009, 2011, 2012 and 2013, respectively. Therefore, it is concluded that companies that partake into workplace activities can gain higher earnings and return.

The finding on the workplace activities in Malaysia is similar to studies by Roeloßen (2002) and Baloch (2009) which found workplace contentment decreases job dissatisfaction and employee’s absenteeism and has been linked with job satisfaction and also lead to higher productivity. Hence, more employees satisfied with the job the better he/she can contribute toward company’s subsequent profitability and productivity. Based on this fact it is right to conclude that adequate implementation of workplace activities associate with company’s financial performance because it directly linked to human capital, portfolio value and operating expenses. CSR in Malaysia was design to incorporate broader interest of all stakeholders.

CONCLUSION

CSR practice and its influence on companies’ financial performance promote accountability and transparency not only to shareholders of the company but also to stakeholders through well design of corporate reporting practice that aid in improving company’s image and profitability. The findings support vast number of previous studies on the relationship between corporate social responsibility and company’s financial performance which recommended that adherence with CSR best practice would lead to a high company performance. However, the findings of this study should be specifically interpreted because the study is purely based on the top one hundred companies in Malaysia. This study has contributed to the practical knowledge since, it recommended and validated the appropriate regulation and codes of good corporate social responsibility practice among public listed company in Malaysia.

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